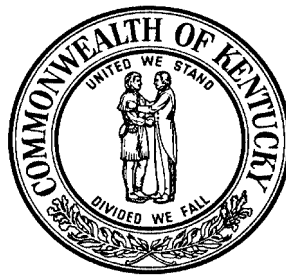


**REPORT OF THE AUDIT OF THE
KENTON COUNTY
CLERK**

**For The Year Ended
December 31, 2001**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
KENTON COUNTY CLERK

For the Year Ended
December 31, 2001

The Auditor of Public Accounts has completed the Kenton County Clerk's audit for the year ended December 31, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fee account balances increased by \$205,830 from the prior calendar year, resulting in a cash surplus of \$208,013 as of December 31, 2001. Revenues increased by \$265,736 from the prior year and disbursements decreased by \$22,998.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Richard L. Murgatroyd, Kenton County Judge/Executive

Honorable William Aylor, Kenton County Clerk

Members of the Kenton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts and disbursements of the County Clerk of Kenton County, Kentucky, and the statement of receipts, disbursements, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2001. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the County Clerk and the receipts, disbursements, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Richard L. Murgatroyd, Kenton County Judge/Executive
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In accordance with Government Auditing Standards, we have also issued our report dated August 27, 2002, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 27, 2002

KENTON COUNTY
WILLIAM AYLER, COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS

For The Year Ended December 31, 2001

Receipts

State Grants		\$	6,500
State Fees For Services			57,627
Fiscal Court			41,037
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	2,540,960	
Usage Tax		12,660,576	
Tangible Personal Property Tax		10,288,437	
Licenses-			
Marriage		50,929	
Occupational		7,154	
City Stickers		173,918	
Deed Transfer Tax		521,026	
Delinquent Taxes		1,438,923	27,681,923
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	74,142	
Real Estate Mortgages		416,869	
Chattel Mortgages and Financing Statements		269,296	
Powers of Attorney		4,686	
All Other Recordings		172,423	
Charges for Other Services-			
Candidate Filing Fees		600	
Copywork		27,075	965,091
Other:			
Miscellaneous/Recycling Old Plates	\$	2,027	
Postage		86,291	
Delinquent Tax Redemptions to State		50,248	
Recovery of Bad Checks		20,747	159,313
Interest Earned			28,569
Total Receipts		\$	28,940,060

KENTON COUNTY
WILLIAM AYLOR, COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS
For The Year Ended December 31, 2001
(Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	1,886,882	
Usage Tax		12,263,064	
Tangible Personal Property Tax		3,376,260	
Licenses, Taxes, and Fees-			
Delinquent Tax		236,761	
Legal Process Tax		108,036	
Candidate Filing Fees		360	\$ 17,871,363

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	1,057,272	
Delinquent Tax		136,085	
Deed Transfer Tax		494,973	
Occupational Licenses		5,880	1,694,210

Payments to Other Districts:

Tangible Personal Property Tax	\$	5,461,411	
Delinquent Tax		730,449	6,191,860

Payments to Sheriff 10,718

Payments to County Attorney 208,353

Refunds	\$	28,677	
Delinquent Tax Redemptions to State		50,248	
City Stickers		155,411	234,336

Total Disbursements \$ 26,210,840

Net Receipts \$ 2,729,220

Payments to State Treasurer:

75% Operating Fund	\$	2,093,275 *	
25% County Fund		635,945	2,729,220

Balance Due at Completion of Audit \$ 0

*Includes reimbursed expenses of \$185,439. See Note 1B

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
WILLIAM AYLLOR, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING
FUND AND COUNTY FUND WITH THE STATE TREASURER

For The Year Ended December 31, 2001

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2001	\$ 2,184	\$	\$ 2,184
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	2,093,275		2,093,275
Fees Paid to State - County Funds (25%)		635,945	635,945
Total Funds Available	<u>\$ 2,095,459</u>	<u>\$ 635,945</u>	<u>\$ 2,731,404</u>
<u>Disbursements</u>			
Kenton County Fiscal Court	\$	\$ 635,945	\$ 635,945
Personnel Services-			
County Clerk's Salary	83,201		83,201
County Clerk's Expense	3,600		3,600
County Clerk's Training Incentive	730		730
Deputies' Salaries	1,140,286		1,140,286
Employee Benefits-			
Employer's Share Social Security	89,151		89,151
Employer's Share Retirement	80,736		80,736
Employer's Paid Health Insurance	284,978		284,978
Omitted Contributions	1,072		1,072
Contracted Services-			
Microfilming	16,098		16,098
Parking	13,230		13,230
Materials and Supplies-			
Office Supplies	33,505		33,505
Delivery Services	6,096		6,096
Telephone	27,258		27,258
Equipment Rental	579		579
Maintenance	9,635		9,635
Forms and Printing	4,692		4,692

KENTON COUNTY
WILLIAM AYLOR, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND
BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER
For The Year Ended December 31, 2001
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Disbursements (Continued)</u>			
Other Charges-			
Conventions and Travel	\$ 5,524	\$	\$ 5,524
Dues	3,550		3,550
Postage	13,638		13,638
Post Office Box Rental	350		350
Unemployment Insurance	1,044		1,044
Maps	121		121
Computer Services and Equipment	54,996		54,996
General Liability/Omissions and Errors Insurance	11,865		11,865
Capital Outlay-			
Office Equipment	1,511		1,511
Total Disbursements	\$ 1,887,446	\$ 635,945	\$ 2,523,391
Fund Balance - December 31, 2000	\$ 208,013	\$ 0	\$ 208,013

The accompanying notes are an integral part of the financial statements.

KENTON COUNTY
WILLIAM AYLLOR, COUNTY CLERK
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and periodically paid to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The Attorney General issued a letter which stated that some receipts of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are receipted in the 75 percent fund.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

KENTON COUNTY
WILLIAM AYLLOR, COUNTY CLERK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2001
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the calendar year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2001, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bond which named the County Clerk as beneficiary/obligee on the bond.

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in 2000 in the amount of \$19,541. Funds totaling \$6,500 were received during 2001. Since this grant was for salaries paid for indexing, 100% of it was turned over to the 75% account to be distributed along with the regular payroll. Funds totaling \$6,500 were expended during 2001, completing the grant.

COMMENT AND RECOMMENDATION

KENTON COUNTY
WILLIAM AYLLOR, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2001

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition and a material weakness under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, the official has limited options for establishing an adequate segregation of duties. During the audit, it was noted that the bookkeeper both deposits cash for the lien department and reconciles the lien department accounts. We recommend that the County Clerk separate the cash safekeeping function from the cash reconciling function.

County Clerk's Response:

I understand the reason that this is inserted in our report.

PRIOR YEAR:

1. County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

This has been corrected and was not repeated in the current year.

2. Lacks Adequate Segregation Of Duties

This is unchanged in the current year.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the Kenton County Clerk for the year ended December 31, 2001, and have issued our report thereon dated August 27, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Kenton County Clerk's financial statements for the year ended December 31, 2001, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kenton County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 27, 2002

